

Federal Reserve Board

Course Description for Basel II Wholesale Activities

Course Catalog Detail

5/19/2009

BASEL II: WHOLESALE ACTIVITIES

TYPE OF PARTICIPANT TARGETED

This course is designed as a supplementary course for safety and soundness examiners and certain other supervision staff who have an interest or anticipate having a responsibility for examining mandatory or opt-in Basel II banks.

PRECOURSE PREPARATION

Prior to attending the course, participants are expected to complete the precourse online study modules developed on FSI Connect. Access can be provided by contacting the learner's training department to obtain an FSI Connect account number.

COURSE OVERVIEW

This 3.5 day course is directed to examiners who have been identified as Level 2 - Basel II Specialist for Quantification and Validation, or designated as needing this level of training. Upon completion of this course, examiners will have intermediate knowledge of quantification concepts for wholesale activities. Additional training objectives will include knowledge of key components of model structure (e.g., credit risk, probability of default, loss given default, exposure at default, estimated loss, correlation, and unanticipated losses).

COURSE OBJECTIVES

By the end of this 3.5 day course, participants will be able to:

- Explain the need for Basel II quantification
- Explain the background for the Basel II rule
- Describe the concepts behind borrower and institutional rating
- Apply quantification principles to obligor and facility rating

POST-COURSE INTERVENTION

After completing Basel II Wholesale, the Examiners with this level of knowledge will be able to compare the bank's current risk measurement practices against the Internal Rating Based Approach requirements for wholesale quantification and report where those practices may fall short of supervisory expectations. It is expected that individuals with this level of knowledge would work closely with Level 3 specialists in model evaluation.

OVERVIEW OF CURRICULUM

BASEL II WHOLESALE AGENDA

Day One

Time	Module	Time Assigned
8:30 AM	Building Blocks 1 Intro	1.5 hours
10:30 AM	Overview of Basel II	1.5 hours
1:30 PM	Building Blocks 2 Pillar I Concepts	1.5 hours
3:30 PM	Building Blocks 3 Pillar I Model	1.5 hours

Day Two

Time	Module	Time Assigned
8:30 AM	Building Blocks 4 Pillar 1 Schematic	1.5 hours
10:30 AM	Ratings 1 - Systems	1.5 hours
1:30 PM	Ratings 2 - Vendor Models	1.5 hours
3:30 PM	Quantification - Mapping and Application	1.5 hours

Day Three

Time	Module	Time Assigned
8:30 AM	Quantification 2 - Data and Estimation	1.5 hours
10:30 AM	Quantifying - Probability of Default	1.5 hours
1:30 PM	Loss Given Default	1.5 hours
3:30 PM	EAD and Maturity	1.5 hours

Day Four

Time	Module	Time Assigned
8:30 AM	Validation	1.5 hours
10:30 AM	Validation	1.5 hours

LEARNING OBJECTIVES:

By the end of this course, learners should be able to:

Building Blocks

- Review related statistical concepts and terminology
- Explain the role statistics plays in
 - Basel II
 - Bank risk management
- Discuss the theoretical underpinnings of the Basel II capital formula
- Describe the evolution and structure of Basel II including Pillar 1, Pillar 2, and Pillar 3
- Explain the “real money” impact of Basel II
- Apply the model to a variety of loan scenarios

Ratings

- Define credit ratings
- Describe the relationship of credit risk and capital on hand to bank ratings
- Compare relative against absolute ratings
- List uses of credit ratings
- Identify factors related to decision making in most credit rating systems
- Describe characteristics of agency and internal risk rating systems
- List acceptable Basel II IRB system standards
- Explain the comment “All models are wrong but some are useful”
- Compare the following PD models identifying strengths and weaknesses
 - Expert Judgment
 - Altman’s Z-score Model
 - MKMV EDF’s

Loss Given Default

- Identify practical challenges to estimation of Loss Given Default
- List factors to be considered when setting up an ELGD

Quantification

- Explain the four step quantification process
- Give examples of how a bank can use the following as part of its quantification process
 - Reference Data Sets
 - Estimation
 - Mapping
 - Application
- Explain the difference between obligor and grade mapping
- Identify challenges to LGD mapping
- List 3 principles of mapping

Exposure at Default (EAD)

- Explain why EAD is important
- Identify factors that must be consider under IRB for Loan Equivalency (LEQ) quantification
- Explain the cohort method

Transitions

- Indicate when you would use PIT ratings and when you would use TTC
- Explain how to estimate transition matrices
- Describe the relationship between a bank's matrices and its stated rating process

Validation

- Explain supervisory expectations about validation as outlined in the draft IRB guidance for corporate credits

- Describe various techniques banks may be using to validate their systems
- Identify validation topics for discussions with bankers

CLASS SIZE

Minimum class size is 10 with a maximum of 30.

INSTRUCTORS

There are usual 4-5 instructors for this course.